

Minutes of the Meeting of the Lottery Advisory Commission
April 20, 2005

Attendance

A meeting of the Lottery Advisory Commission was held from 10:00 to 11:30 a.m. on Wednesday, April 20, 2005, in the 17th Floor Conference Room of the Attorney General's Office at the State Capitol in Bismarck. Representing the Commission were Chairman RaeAnn Kelsch, Representative Lois Delmore, Senator Jerry Klein, Mr. Laurel Thoreson, and Ms. Darlene Watne. Representing the North Dakota Lottery (Lottery) were Mr. Chuck Keller, Director, Ms. Eileen Walsh, Sales and Marketing Specialist, and Ms. Sherry Maragos, Customer Service Specialist. Mr. Dan Nameniuk of Scientific Games International, Inc. (Scientific Games) also participated in the meeting. No member of the public attended.

Representative Delmore made a motion to approve the minutes of the December 6, 2004, meeting. Commissioner Thoreson seconded the motion. The motion passed 5-0.

Legislative Bills

Mr. Keller indicated that House Bill No. 1144 passed. This bill carried an emergency measure and requires the Lottery to withhold North Dakota income tax from lottery prizes in excess of \$5,000. The withholding rate is 5.54%.

Mr. Keller indicated that House Bill No. 1259 passed. This bill carried an emergency measure, replaces the present Lottery law with a new law that is clear, concise, and technically correct, authorizes the Attorney General's Office to establish a line of credit with the Bank of North Dakota, and authorizes the Attorney General's Office to employ up to 11 employees, if necessary. The Lottery presently has six positions filled and is in process of filling a vacant position of a 2nd customer service specialist.

Staffing

Mr. Keller asked for the Commission's favorable consideration for hiring an 8th employee who would primarily be responsible for planning, coordinating, developing, and administering a comprehensive subscription service. The subscription service would be a convenience to players by enabling them to pay in advance and be automatically entered in draws for 13, 26, and 52 weeks. The employee would also assist the 2 customer service specialists, perform administrative duties, and website services. Mr. Keller explained the importance of the subscription service to the Lottery, the very tight time frame, and urgency to hire the new employee. The target date for launching the subscription service is December 1, 2005.

Mr. Keller asked for the Commission's favorable consideration for hiring 2 permanent part-time employees to conduct the evening draws, starting in September 2005. The

draws are presently conducted by Lottery staff. However, the time applied to the draws diverts valuable staff time away from their regular duties. He proposed hiring 2 people who would conduct the evening draws and do the Saturday balancing of retailer transactions on a bi-weekly rotational basis.

Representative Delmore made a motion to approve the request and Commissioner Watne seconded the motion. The motion passed 5-0.

Marketing

Ms. Walsh provided an overview of the Lottery's "First Anniversary Cash Bonus Promotion." She reported a sales increase from this promotion of 7.84% based on previous sales during periods of similar Powerball jackpot amounts.

Ms. Walsh explained the "Powerball Retailer Clerk Power Play Promotion." The Lottery's Power Play sales in relation to Powerball sales are ranked the 4th highest among the 29 member lotteries of the Multi-State Lottery Association. The Lottery's goal is to be ranked first. This promotion is designed to increase Power Play sales, increase retailers' commissions, and educate players on the benefit of the Power Play option.

Ms. Walsh explained three proposed point-of-sale items. The first item is an acrylic brochure holder that would hold all of the Lottery's point-of-sale items and consolidate the Lottery's point-of-sale items that now lay around the terminal.

The second item is a new outside sign that would be a combination "Call-to-Action" and "Jackpot Awareness." Since the pay at the pump feature at gas stations and convenience stores does not require customers or potential players to enter the store to pay, the Lottery needs an effective way to alert potential players that the retailer sells lottery tickets and what the Powerball jackpot amount is for the next draw. The Lottery's present backlit logo sign would be relocated to next to the terminal.

The third item is a new inside Jackpot Awareness/Winning Number sign. The economic useful life of the present sign is expiring and the sign will become obsolete with the launch of a fourth game.

Ms. Walsh provided an overview of the Lottery's marketing plan for 2005 and 2006. The plan includes the Powerball Retailer Clerk Power Play Promotion, summer 2005 winner awareness media campaign, promotion of Lady Luck in the July 4th Mandan Parade, booth at the North Dakota State Fair, re-launch (matrix change) of Powerball on August 28, 2005, 10 millionth ticket promotion, Give-A-Gift promotion, retailer and player surveys, launch of the subscription service, and launch of 2 new games.

Mr. Keller asked for the Commission's favorable consideration for proceeding with purchasing the acrylic brochure holders and inside Jackpot Awareness/Winning Number

signs, and proceeding (not to purchase) with a Request for Proposals for the Call-to-Action/Jackpot Awareness sign.

Representative Delmore made a motion to approve the purchase of the acrylic brochure holders and inside Jackpot Awareness/Winning Number signs, and proceed with the Request for Proposals for the Call-to-Action/Jackpot Awareness sign. Commissioner Watne seconded the motion. The motion passed 5-0.

Proposed Games

Mr. Keller stated that the Lottery would be interested in any new multi-state game that would be attractive to players, add value to the Lottery's product mix, and not cannibalize existing games. He indicated that potential 4th and 5th games that are named "2by2" and "CrossMatch" and supported by the MUSL may be promising for North Dakota. Mr. Keller indicated that 2by2 is presently conducted by the Kansas and Nebraska Lotteries and CrossMatch is under development. He explained how both games would be played, prize tiers, odds of winning, draw days, and projected North Dakota per capita sales and net proceeds. Mr. Keller indicated that the Lottery may be interested in launching 2by2 in the fall of 2005 and CrossMatch in 2006.

The Lottery does not offer instant tickets because of a restriction of the Lottery law.

Commissioner Thoreson made a motion to recommend that Mr. Keller consider adding the 2by2 and CrossMatch games to the Lottery's future product mix. Representative Delmore seconded the motion. The motion passed 5-0.

Commissioner Thoreson inquired if the appropriation for problem gambling was adequate and how the amount was being applied by the Department of Human Services (DHS). Mr. Keller indicated that it was probably premature to determine whether the appropriated amount was adequate or inadequate since DHS only recently contracted out problem gambling services. The Lottery will provide information on how DHS is applying the appropriated amount at the next Advisory Commission meeting.

Senator Klein stated that he was proud of the Lottery for being the source of the revenue that is used for problem gambling. He indicated that it was time other gaming entities, such as tribal casinos and charitable gaming organizations, stepped up to the plate to contribute funds for problem gambling.

Mr. Keller said that the Lottery has already transferred the entire appropriated amount of \$400,000 for the 2003-05 biennium to the Compulsive Gambling Prevention and Treatment Fund.

Marketing and Related Services Contract

The Lottery's present contract with its advertising vendor, H2M, expires on June 30, 2005. Mr. Keller indicated that the contract provides the Lottery with an option to extend

the contract for 1 or 2 years. He proposed, based on the vendor's overall favorable performance, that the Lottery extend the contract for 1 or 2 additional years depending on the terms of negotiation with the vendor.

Commissioner Klein made a motion to have Mr. Keller negotiate a 1 or 2 year contract extension with H2M that would be beneficial and cost effective for the Lottery. Representative Delmore seconded the motion. The motion passed 5-0.

Retailer Advisory Board

Mr. Keller introduced Ms. Sherry Maragos as the new customer service specialist for the Lottery. Ms. Maragos indicated that the new Retailer Advisory Board will hold its first meeting on April 26, 2005. She explained and provided the Commission with a list of the members of the Board (by zone), document titled "Role of the Retailer Advisory Board," and meeting agenda.

Ms. Maragos provided the Commission with an overview of the responses that she received from doing telemarketing calls to 400 Lottery retailers. She indicated that the field service technicians of Scientific Games and staff of the Lottery were meeting the priority needs of the retailers.

Critical Success Factors

Mr. Keller indicated that for the 2003-05 biennium, total operating revenue would be about \$24 to \$25 million and state general fund revenue would be about \$6.2. Although the Lottery is still doing very well in per capita sales, by game, in relation to other similar state lotteries, the sales line is trending downward. This is normal after a honeymoon period.

Interrelationship Between the Lottery and Scientific Games

Mr. Keller said that he is working with Scientific Games to reach a mutual understanding of the duties and interrelationship of the Lottery's customer service specialists and Scientific Games' field service technicians. He indicated that the Lottery's 2 customer service specialists alone cannot provide a high level of quality service to 400 Lottery retailers.

Overview by Scientific Games

Mr. Nameniuk of Scientific Games expressed positive comments about the steady uptime of the Lottery's terminal and responsiveness of the retailers toward the Lottery.

Adjournment

Commissioner Watne made a motion to adjourn the meeting. Commissioner Thoreson seconded the motion. The motion passed 5-0.